

Message Text

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PAGE 01 BRUSSE 05375 01 OF 03 180505Z
ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-08
FRB-01 INR-10 NSAE-00 SP-02 STR-07 TRSE-00 LAB-04
SIL-01 OMB-01 IO-14 /067 W
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R 171811Z MAR 78
FM AMEMBASSY BRUSSELS
TO SECSTATE WASHDC 5554
INFO ALL EC CAPITALS
USMISSION GENEVA

UNCLAS SECTION 01 OF 03 BRUSSELS 05375

USEEC

PASS AGRICULTURE ELECTRONICALLY
PARIS ALSO FOR USOECD
GENEVA ALSO FOR USMTN

E.O. 11652: N/A
TAGS: EAGR, EEC
SUBJ: EC DAIRY SITUATION

REF: (A) 77 BRUSSELS 17578, (B) 77 BRUSSELS 19435,
(C) 77 EC A-417

1. SUMMARY: EC DAIRY STOCKS HAVE DECLINED SUBSTANTIALLY
IN RECENT MONTHS. THIS DECLINE IS DUE IN LARGE PART TO
THE WINTER LULL IN MILK PRODUCTION AND TO THE WITHDRAWAL
OF EC-SUBSIDIZED PRIVATE STOCKS OF BUTTER IN ANTICIPATION
OF THE TERMINATION OF THIS PROGRAM. HOWEVER, IT ALSO
REFLECTS THE EFFECTIVENESS OF EC DISPOSAL PROGRAMS IN 1977
LED BY A HIGH LEVEL OF EXPORTS. THE COST OF EC DAIRY
SUPPORT PROGRAMS IS ESTIMATED AT 3 BILLION U.A. IN 1977.
EC SUPPLY AND DEMAND BALANCES FOR BUTTER AND NFDMA ARE
INCLUDED IN THIS TELEGRAM. END SUMMARY.

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PAGE 02 BRUSSE 05375 01 OF 03 180505Z

2. EC SUPPORTED STOCKS OF BUTTER HAVE FALLEN SHARPLY IN
RECENT MONTHS, FROM ALMOST 350,000 TONS AT THE BEGINNING
OF DECEMBER 1977 (REF A) TO 164,000 TONS AT THE START OF
MARCH 1978. THERE HAS ALSO BEEN A SUBSTANTIAL DECLINE IN
INTERVENTION STOCKS OF NFDMA FROM 1.14 MILLION TONS TO
845,000 TONS OVER THE SAME PERIOD. IN THE CASE OF BUTTER,

ALL OF THE DECLINE HAS TAKEN PLACE IN STOCKS HELD UNDER EC SUBSIDIZED PRIVATE STORAGE CONTRACTS. SUCH STOCKS FELL FROM 211,000 TO 27,000 TONS FROM DECEMBER TO MARCH. BUTTER STOCKS IN PUBLIC INTERVENTION HAVE REMAINED AT ABOUT 137,000 TONS OVER THIS PERIOD.

3. COMMISSION OFFICIALS ATTRIBUTE THE DECLINE IN DAIRY STOCKS TO THE FOLLOWING FACTORS:

A. THE SEASONAL LOW IN MILK PRODUCTION. STOCKS NORMALLY FALL OVER THE WINTER MONTHS AND THEN BEGIN TO PICK UP SHARPLY IN THE SPRING.

B. WITHDRAWAL OF BUTTER FROM PRIVATE STORAGE IN ANTICIPATION OF THE TERMINATION OF THE PROGRAM ON MARCH 31, 1978. A NEW PRIVATE STORAGE PROGRAM WILL PRESUMABLY BE IMPLEMENTED AT THE START OF THE 1978/79 MILK MARKETING YEAR.

C. SUCCESSFUL DISPOSAL PROGRAMS IN 1977 SURPASSING EARLIER EC EXPECTATIONS. IN PARTICULAR, DAIRY EXPORTS WERE VERY STRONG.

SOME OBSERVERS ALSO FEEL THAT THE STOCKS HAVE BEEN KEPT AT RELATIVELY LOW LEVELS IN RECENT MONTHS IN ANTICIPATION OF CHANGES IN THE GREEN RATES OF CERTAIN MEMBER STATES. SIMILARLY, THEY FEEL THAT STOCKS ARE NOW BEING HELD DOWN
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PAGE 03 BRUSSE 05375 01 OF 03 180505Z

IN ANTICIPATION OF AN INCREASE IN 1978/79 EC DAIRY SUPPORT PRICES. THESE OBSERVERS ALSO POINT OUT THAT PRIVATE STOCKS OF NZ BUTTER HELD IN THE UK ARE AT EXTREMELY HIGH LEVELS (REF B). THUS, THEY FEEL A VERY SHARP INCREASE IN EC BUTTER STOCKS COULD OCCUR AFTER MAY 1.

4. ON THE BASIS OF INFORMATION PROVIDED US BY COMMISSION OFFICIALS AND PUBLISHED IN THE COMMISSIOS 1977 REPORT ON THE SITUATION OF AGRICULTURAL MARKETS, WE HAVE CONSTRUCTED THE FOLLOWING SUPPLY AND DEMAND BALANCES FOR BUTTER AND NFDI IN 1976 AND 1977 (THOUSAND METRIC TONS):

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PAGE 01 BRUSSE 05375 02 OF 03 180548Z

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UNCLAS SECTION 02 OF 03 BRUSSELS 05375

BUTTER AND NFDM IN 1976 AND 1977 (THOUSAND METRIC TONS):

BUTTER		
	1976	1977
BEGINNING STOCKS	164	255
SUBSIDIZED PRIVATE	PS93	79
INTERVENTION	71	176
PRODUCTION	1810	1780
IMPORTS	132	138
TOTAL SUPPLY	2106	2173
DOMESTIC CONSUMPTION	1733	1672
AT MARKET PRICES	1626	1502
SPECIAL MEASURES	107	170
EXPORTS	118	271
COMMERCIAL	84	220
FOOD AID	34	51

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PAGE 02 BRUSSE 05375 02 OF 03 180548Z

CLOSING STOCKS	255	230
SUBSIDIZED PRIVATE	79	
INTERVENTION	176	
TOTAL DISAPPEARANCE	2106	2173

NFDM

BEGINNING STOCKS	1248	1331
PRIVATE	136	196

PUBLIC	1112	1135
PRODUCTION (1)	2055	2000
IMPORTS	1	-
TOTAL SUPPLY	3304	3331
DOMESTIC CONSUMPTION	1804	1840
AT MARKET PRICES	220	240
CALF FEED	1177	1200
PIG AND POULTRY FEED(2)	407	400
EXPORTS (3)	169	430
COMMERCIAL	99	330
FOOD AID	70	100
CLOSING STOCKS	1331	1061
PRIVATE	196	
PUBLIC	1135	
TOTAL DISAPPEARANCE	3304	3331

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PAGE 03 BRUSSE 05375 02 OF 03 180548Z

(1) INCLUDING ESTIMATED BUTTERMILK PRODUCTION OF 55,000 TONS AND 60,000 TONS IN 1976 AND 1977, RESPECTIVELY.

(2) OF WHICH, 391,000 TONS UNDER THE COMPULSORY PURCHASE SCHEME IN 1976; 80,000 UNDER THIS SCHEME IN 1977.

(3) EXPORTS FOR FEED USE: 28,000 TONS IN 1976 170,000 TONS IN 1977. COMMISSION OFFICIALS SAY THAT MOST OF THESE EXPORTS GO TO SPAIN, EASTERN EUROPE, AND JAPAN.

5. COMMISSION OFFICIALS ALSO MADE THE FOLLOWING COMMENTS DURING THE COURSE OF DISCUSSIONS OF THE EC DAIRY SITUATION:

A. THE CHRISTMAS BUTTER PROGRAM (REF C) RESULTED IN THE DISPOSAL OF 72,000 TONS OF INTERVENTION BUTTER. IT IS ESTIMATED THAT ABOUT HALF OF THESE SALES REPRESENTED AN ADDITION TO NORMAL CONSUMPTION; CONSEQUENTLY, THE PROGRAM IS GENERALLY CONSIDERED TO BE A SUCCESS. IN CONTRAST, THE CONSUMER SUBSIDY PROGRAM EMPLOYED IN THE UK IS CONSIDERED TO BE INEFFECTIVE AND VERY EXPENSIVE. THE REDUCED PRICE TO UK CONSUMERS RESULTS IN AN ESTIMATED CONSUMPTION INCREASE OF ONLY 31,000 TONS.

B. COMMISSION OFFICIALS REPEATEDLY MADE THE POINT THAT THEIR EXPORT PRICES FOR DAIRY PRODUCTS WERE THE HIGHEST IN THE WORLD. THEY CLAIMED THAT THEIR PRUDENT POLICY WITH

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PAGE 01 BRUSSE 05375 03 OF 03 180506Z
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UNCLAS SECTION 03 OF 03 BRUSSELS 05375

RESPECT TO EXPORT SUBSIDIES HAD HELPED TO RAISE WORLD
MARKET PRICES OVER THE PAST YEAR. DESPITE THIS, THEY HAD
HAD AN EXCELLENT YEAR FOR DAIRY EXPORTS IN 1977.

C. DESPITE LOW PRODUCTION IN EARLY 1977 DUE LARGELY
TO THE LINGERING EFFECTS OF THE 1976 DROUGHT, EC MILK
PRODUCTION INCREASED BY 2.8 PERCENT IN 1977. ANOTHER
INCREASE OF AT LEAST 2 PERCENT IS EXPECTED IN 1978. THERE
IS STILL TREMENDOUS POTENTIAL FOR YIELD INCREASES IN THE
EC.

D. THE RECENT COMMISSION PROPOSAL TO SUSPEND INTER-
VENTION PURCHASES OF NFD (REF D) WILL HAVE A VERY DIFFI-
CULT TIME IN THE COUNCIL. HOWEVER, THE PSYCHOLOGICAL
EFFECTS OF THE PROPOSAL ITSELF (FOR EXAMPLE DISCOURAGEMENT
OF FARMERS AND DAIRY INVESTMENT, ENCOURAGEMENT OF BETTER
MARKETING) COULD BE IMPORTANT.

E. FEOGA EXPENDITURES ON THE DAIRY SECTOR TOTALED
ABOUT 3 BILLION U.A. IN 1977 AS COMPARED WITH EXPENDITURES
OF 2.1 BILLION U.A. IN 1976. MORRIS

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